

**BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

DOCKET NO. 2014-406-S

In the Matter of:

**Application of Development Service, Inc.)
for approval of sewer rates, terms, and)
conditions for residential and commercial)
customers in all areas served.)
_____)**

**PREFILED
DIRECT TESTIMONY
OF
KEITH G. PARNELL**

Q. Please state your name, business address and your affiliation with the applicant Development Service, Inc. (DSI).

A. Keith G. Parnell, P. O. Box 258, 816 East Main Street, Lexington, South Carolina 29072. I am the President and Operations Manager for Development Service, Inc., which I will refer to in my testimony as DSI.

Q. Please describe your educational and professional background.

A. I graduated from the University of South Carolina with a B.S. Degree in Civil Engineering in 1981 and obtained a Masters from U.S.C. in Water Resource Engineering in 1983. I was employed as an engineer from 1983 to 1985 by the United States Naval Facilities Engineering Command. From 1985 through 1990, I practiced civil engineering for B.P. Barber Company in Columbia, South Carolina. I am also currently registered as a Professional Engineer by the State of South Carolina. I am also employed as Operations Manager for Midlands Utility, Inc. (Midlands). DSI and Midlands are owned by my brother, C. Ken Parnell, and me as equal shareholders. My brother is also a professional engineer and consults with numerous utilities.

Q. Mr. Parnell, describe DSI and its operations.

A. My brother and I acquired three utilities, DSI, Midlands and Bush River Utilities, Inc. (Bush River), from our parents. DSI and Bush River merged in 2008 with the approval of the Public Service Commission, with DSI becoming the surviving company. Both companies are public utilities regulated by this Commission and subject to regulation by the South Carolina Department of Health and Environmental Control (DHEC). DSI with its offices in Lexington, South Carolina, provides sewer service in Richland and Lexington Counties. DSI provides sewer collection and sewer treatment services to 68 residential customers and 123 commercial customers under existing schedule of rates approved in Order No. 2007-314 in Docket No.

1 2004-212-S. To take advantage of economies of scale, Midlands and DSI share an office and
2 other facilities, staff, and certain assets and equipment. Both DSI and Midlands are jointly and
3 severally borrowers from the same commercial bank, having pledged certain utility assets as
4 security to finance construction of a modern wastewater treatment plant for DSI. As additional
5 security for the construction financing, my brother and I, as owners of the companies, also are
6 joint and several guarantors of the construction financing facility. At the time of the financing,
7 which is still in place, funds were also needed for necessary upgrades to assist maintenance for
8 both DSI and Midlands.

9 **Q. Please relate the facts and circumstances leading up to this request for rate**
10 **adjustments before the PSC.**

11 A. Although it has been approximately ten years since DSI's last rate adjustments, the
12 merger with Bush River afforded DSI with the opportunity to consolidate certain expenses. In
13 the meantime, we also considered the option of purchasing Midlands' utility assets to achieve
14 further economies; however, a cost analysis of the pros and cons of a merger of DSI and
15 Midlands led us to conclude that it would not prove cost effective to merge these companies.
16 After a decade since DSI sought and obtained rate relief, the need now exists to increase
17 operating revenue to maintain the financial soundness of the utility. It is imperative to have
18 sufficient revenue to assure payment of existing debt and the rising cost of debt. Further, as the
19 collection system ages, DSI maintenance costs increase. Not only have labor costs risen since
20 2004, it is not realistic to expect DSI and Midlands to continue to enjoy continuing cost
21 efficiencies through the sharing of employees. All in all, DSI must have a fair and reasonable
22 adjustment of rates as necessary to sustain a reasonable operating margin. As can be seen from

1 the exhibits to our application, accounting pro forma adjustments necessitate a 54.45% increase
2 over the test year at December 31, 2013.

3 **Q. Please provide any additional justification for rate relief.**

4 A. In June of 2014, DSI received a proposed property tax assessment (form PT-422) of
5 \$96,010 from the South Carolina Department of Revenue (SCDR) against DSI for tax year 2014.
6 See Exhibit H (Cost Justification for proposed rates and charges) of DSI's application. In issuing
7 the property tax assessment, the Department of Revenue is informing Lexington County to tax
8 DSI based on an appraised property value of \$96,010. The \$96,010 assessment, when
9 multiplied by the millage, results in an actual property tax amount of \$48,283 as contained in our
10 Exhibit D. DSI is not able to absorb the property tax increase without an increase in rates.

11 **Q. Mr. Parnell, are you familiar with each of the exhibits filed with Bush River's rate**
12 **application?**

13 A. Yes. I have personally been involved with the preparation of the information in each
14 exhibit and those which were not directly prepared by me were prepared under my supervision
15 and agreement.

16 **Q. Is DSI in compliance with DHEC permitting requirements?**

17 A. DSI is in compliance with the permitting requirements as evidenced by DHEC's recent
18 letter of approval found in Exhibit J to the application.

19 **Q. Mr. Parnell, are the expenses, revenue and adjustments to operating expenses as**
20 **exhibited in the application of DSI in this docket accurate?**

21 A. Yes, I believe they have been accurately presented based upon the disclosure of the
22 information and knowledge available to the company.

1 **Q. Do you expect the proposed rate increases will produce sufficient revenues to allow**
2 **the company to meet its expenses and earn a fair return?**

3 A. Yes, I do. Our study of the necessary adjustments show they will produce a reasonable
4 operating margin based upon the percentage increase to our customers.

5 **Q. Mr. Parnell, does this complete your testimony?**

6 A. Yes.